

WEEKLY ECONOMIC BRIEF – 15 February 2010

Key Points

- *The People's Bank of China raises the reserve requirement ratio by 50 basis points*
- *Economic momentum in euro area weakens in the December quarter*
- *Australian economy adds 52,700 jobs in January; unemployment rate falls to 5.3 percent*

Stability returned to financial markets after the European Union pledged to help the Greek government tackle its rising debt, if required. The Greek bond market rallied strongly, with the spread between German and Greek ten-year government bonds narrowing by nearly 55bps over the week. As concerns regarding sovereign default eased, major bond markets reversed last week's gains, although some of the losses were pared back following the surprise move by the People's Bank of China to raise the reserve requirement ratio by 50bps for the second time this year. Bernanke's indication that the Fed may consider increasing the spread between the discount rate and the target federal funds rate contributed to US ten-year government bonds falling by 12bps, despite Bernanke stating that the change "should not be interpreted as signalling any change in the outlook for monetary policy". Despite the mid-week rally in response to the BOE lowering their expected growth and inflation paths, yields on ten-year UK government bonds closed the week nearly 16bps higher. Yields on German ten-year government bonds rose by less than the US and UK following weaker GDP and industrial production data. The Japanese bond market rallied over the week reflecting time zone differences.

The EU pledge contributed to global equity markets rallying by 1.1 percent over the week, but some of the gains were offset by PBOC's actions and the weaker than expected European GDP data. Increased risk appetite pushed commodity prices higher, with oil prices closing above US\$75 per barrel for the first time in three weeks. The US dollar was weaker against the commodity currencies, and the robust Australian labour market report helped lift the Australian dollar by over two percent to US\$0.88.

Consumer spending continues to recover in the US, with retail sales rising by 0.5 percent in January and sales in the December quarter revised slightly higher. Despite improving current conditions, consumer confidence remains soft, weighed down by weak expectations for the coming year.

As their domestic economies recover, import demand within the US and UK rose strongly in December. The weaker trade deficit in the US will lead to a downward revision to net exports in the December quarter national accounts while import volumes in the UK for December were also stronger than forecast, leading to a widening in the trade balance over the month. Strong UK industrial production growth in the December quarter has led to increased expectations that UK real GDP growth in the December quarter may be revised higher.

The momentum behind the euro area's recovery slowed in the December quarter, with the economy expanding by 0.1 percent, after growing by 0.4 percent in the September quarter. Growth within the German economy was flat during the quarter, after expanding by 0.7 percent in the September quarter. According to the German statistics office, final consumption expenditure and capital formation declined over the quarter, while net exports made a positive contribution to growth. French GDP was marginally stronger than expected, boosted by government incentives aimed at increasing vehicle production and household spending. The economies of Italy, Spain and Greece all recorded negative growth for the quarter, while economic activity was flat in Portugal. Softer industrial production is likely to have contributed to the weaker than expected GDP result, with euro area industrial production falling by 1.7 percent in December, to be only 0.2 percent higher for the quarter.

The Asian region continues to lead the global recovery, with strong real GDP growth in the December quarter. The Philippine economy expanded for its third consecutive quarter, with real GDP growth rising by 0.9 percent in the December quarter, while the Indonesian economy expanded by around 1.4 percent. The pace behind the region's recovery slowed in January, with South Korea's unemployment rate surging from 3.5 percent to 4.8 percent. Furthermore, Chinese trade flows were weaker in January, with export and import values declining on a seasonally adjusted basis. Inflationary pressures also moderated in China during January, with annual CPI inflation falling from 1.9 percent to 1.5 percent.

The Australian labour market continues to surprise commentators, with the economy creating 52,700 jobs in January. Despite the increase in employment, aggregate hours worked fell by one percent. Part-time employment, which rose by 36,800, accounted for most of the gain in jobs. Since the labour market's cyclical peak in October, the economy has added 152,700 jobs and the unemployment rate has fallen from 5.8 percent to 5.3 percent. Given the rapid recovery in the labour market and the implications for wage growth, the probability that the RBA will lift rates by 25bps at the March meeting has increased, with the market rates expecting rates to reach 4.75 percent by the end of the year.

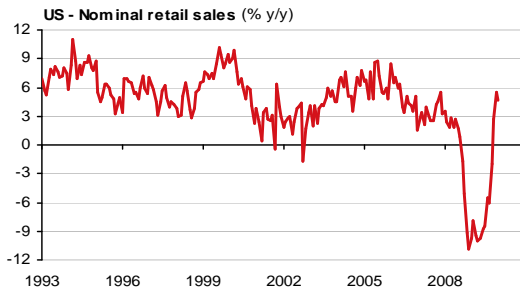
Consumer confidence pulled back in February, despite the RBA leaving interest rates unchanged at its February meeting, and the strong labour market performance. Falling equity prices are likely to have weighed on sentiment, although confidence still remains significantly above its long-run average.

Australian housing finance declined in December, with owner-occupied finance (ex-refinancing) declining by 5 percent. Finance for the construction of new dwellings fell by nearly 8 percent, although still remains nearly 40 percent higher in annual terms. The share of first home buyers as a percentage of all dwellings financed fell to 21 percent, down from its series high of 28.5 percent in April, as the first homeowners grant was wound down and mortgage rates rose.

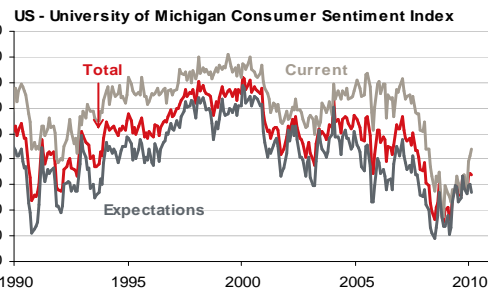
Table 1. Financial market movements, 05/02/2010 to 12/02/2010

	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	1.1%	-	-
US	0.9%	12.7 bps	-
Japan	0.3%	-3.9 bps	-0.8%
UK	1.6%	15.9 bps	0.4%
Germany	1.2%	7.2 bps	-0.3%
Australia	1.1%	11.9 bps	2.2%

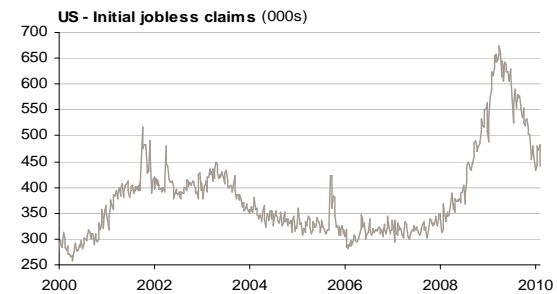
United States



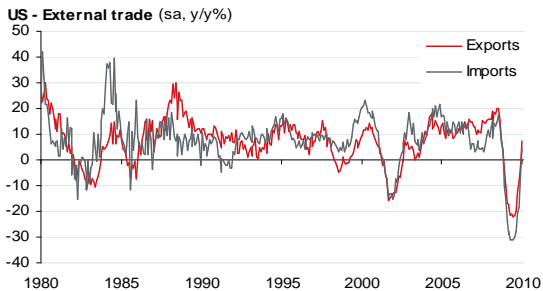
US - Retail sales (12 Feb)	Nov-09	Dec-09	Jan-10	Mkt fcast
Retail sales (% y/y)	2.7	5.5	4.7	-
Retail sales (% m/m)	2.0	-0.1	0.5	0.3
Ex autos	2.0	-0.2	0.6	-
Ex autos and gas	1.1	-0.3	0.0	-
Control	2.0	-0.1	0.7	-
Motor Vehicle & Parts Dealers	1.8	0.1	0.0	-
Furniture, Home Furn., Electronics, Appliances	1.8	-1.6	-0.1	-
Building Materials, Garden Equip., Supply Stores	2.5	-0.4	-1.2	-
Food & Beverage Stores	1.1	-0.8	0.8	-
Health & Personal Care Stores	0.4	0.4	0.1	-
Gasoline Stations	9.8	0.9	0.4	-
Clothing & Clothing Accessory Stores	-0.8	-1.0	0.3	-
Sporting Goods, Hobby, Book & Music Stores	0.6	1.9	1.0	-
General Merchandise Stores	0.8	-1.1	1.5	-
Miscellaneous Stores	0.9	0.4	-1.1	-
Nonstore Retailers	2.5	2.2	1.6	-
Food Service & Drinking Places	0.6	-0.2	0.6	-
Retail sales revisions (ppts, % m/m)	0.7	0.2	-	-



US - University of Michigan confidence (12 Feb)	Dec-09	Jan-10	Feb-10	Mkt fcast
Consumer Sentiment Index (sa, index)	73.4	74.4	73.7	77.0
Current Conditions Index (sa, index)	79.1	81.1	84.1	-
Consumer Expectations Index (sa, index)	69.7	70.1	66.9	-



US - Initial jobless claims (4 February)	22-01-10	29-01-10	05-02-10	Mkt fcast
Continuing claims (000s)	4617.0	4538.0	-	-
Continuing claims (000s, 4wk moving average)	4621.3	4603.5	-	-
Initial jobless claims (000s)	472.0	483.0	440.0	465.0
Initial jobless claims (000s, 4wk moving average)	457.0	469.5	468.5	-



US - International trade	Oct-09	Nov-09	Dec-09	Mkt fcast
Trade balance (US\$b)	-33.2	-36.4	-40.2	-35.8
Goods balance (Census basis, US\$b)	-43.3	-47.1	-50.3	-
Real Goods (Census basis, US\$b)	-38.4	-40.9	-43.7	-
Nominal exports (%m/m)	2.7	0.9	3.3	-
Nominal imports (%m/m)	0.7	2.6	4.8	-
Nominal goods exports (BOP basis, %m/m)	3.5	1.2	4.9	-
Nominal goods imports (BOP basis, %m/m)	0.7	3.1	5.6	-
Real goods exports (Census basis, % m/m)	4.1	-0.7	4.4	-
Real goods imports (Census basis, %m/m)	0.3	1.5	5.2	-

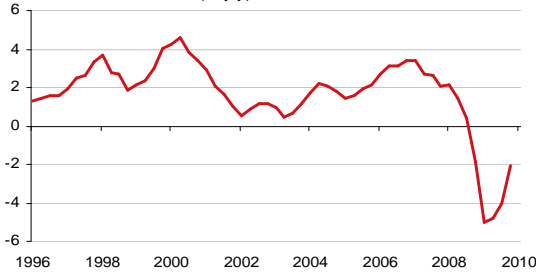


US - Wholesale inventories (9 Feb)	Oct-09	Nov-09	Dec-09	Mkt fcast
Wholesale inventories (sa, m/m%)	0.6	1.6	-0.8	0.5
Wholesale inventories (sa, y/y%)	-13.3	-10.9	-10.2	-
Wholesale shipments (sa, m/m%)	1.4	3.6	0.8	-
Wholesale shipments (sa, y/y%)	-9.5	0.9	5.7	-
Inventory-shipments ratio (sa)	1.2	1.1	1.1	-

US - Business inventories (12 Feb)	Oct-09	Nov-09	Dec-09	Mkt fcast
Business inventories (sa, m/m%)	0.3	0.5	-0.2	0.4
Business inventories (sa, y/y%)	-12.5	-11.0	-9.7	-
Inventories/sales ratio (sa)	1.30	1.27	1.26	-

Euro area

Euro area - Real GDP (% y/y)



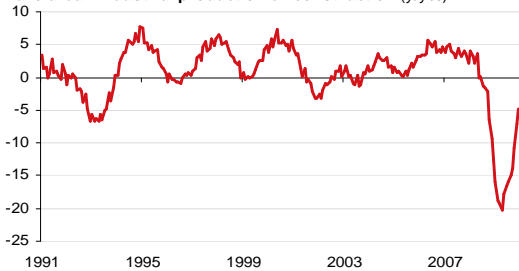
Euro area - National accounts (12 Feb)	Jun-09	Sep-09	Dec-09	M'kt f'cast
Real GDP growth (sa, q/q%)	-0.1	0.4	0.1	0.3
Real GDP growth (sa, q/q%)	-4.8	-4.0	-2.1	-

Germany - National accounts (12 Feb)	Jun-09	Sep-09	Dec-09	M'kt f'cast
Real GDP growth (sa, q/q%)	0.4	0.7	0.0	0.3
Real GDP growth (sa, y/y%)	-5.8	-4.8	-2.4	-2.1

Italy - National accounts (12 Feb)	Jun-09	Sep-09	Dec-09	M'kt f'cast
Gross domestic product (sa, q/q%)	-0.5	0.6	-0.2	0.1
Gross domestic product (sa, y/y%)	-5.9	-4.6	-2.8	-2.6

Spain - National accounts (11 Feb)	Jun-09	Sep-09	Dec-09	M'kt f'cast
Real GDP growth (sa, q/q%)	-1.1	-0.3	-0.1	-0.1
Real GDP growth (sa, y/y%)	-4.2	-4.0	-3.1	-3.0

Euro area - Industrial production ex construction (y/y%)

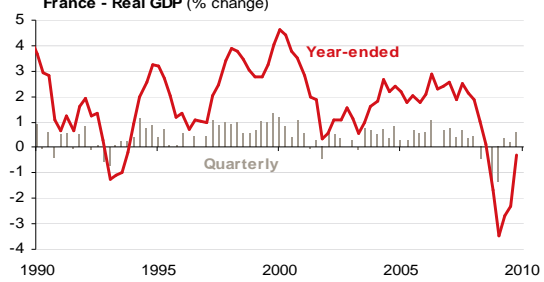


Euro area - Industrial production (12 Feb)	Oct-09	Nov-09	Dec-09	M'kt f'cast
Industrial production (sa, m/m%)	-0.7	1.4	-1.7	0.1
Industrial production (sa, y/y%)	-10.9	-7.0	-4.9	-

France - Industrial production (10 Feb)	Oct-09	Nov-09	Dec-09	M'kt f'cast
Industrial production (sa, m/m%)	-0.1	0.6	-0.1	0.5
Industrial production (sa, y/y%)	-8.1	-3.8	-2.3	-1.6

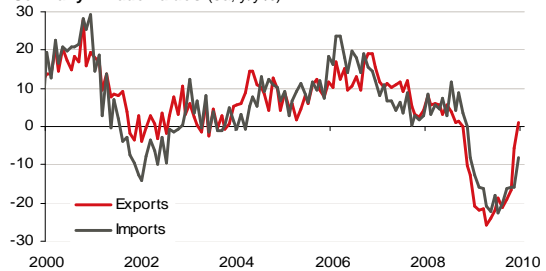
Italy - Industrial production (10 Feb)	Oct-09	Nov-09	Dec-09	M'kt f'cast
Industrial production (sa, m/m%)	0.5	0.8	-0.7	-0.1
Industrial production (sa, y/y%)	-14.0	-5.1	-2.3	-

France - Real GDP (% change)



France - National accounts (12 Feb)	Jun-09	Sep-09	Dec-09	M'kt f'cast
Gross domestic product (sa, q/q%)	0.3	0.2	0.6	0.5
Gross domestic product (sa, y/y%)	-2.7	-2.3	-0.3	-0.3
Total Consumption Expenditure (sa, q/q%)	0.4	0.2	0.9	-
Private	0.3	0.1	0.9	-
Households	0.3	0.1	0.9	-
Non-Profit Institutions	0.6	0.6	0.6	-
General Government	0.6	0.6	0.7	-
Collective	0.4	0.3	0.2	-
Individual	0.7	0.8	0.9	-
Net exports (sa, %pt contribution)	0.9	0.4	-0.8	-
Exports (sa, q/q%)	0.5	1.8	0.5	-
Imports (sa, q/q%)	-2.6	0.3	3.3	-
Gross Fixed Capital Formation	-1.0	-1.4	-1.2	-
Financial Companies	-1.8	-1.5	-1.2	-
General Government	0.7	-1.1	-0.2	-
Households	-1.6	-2.3	-2.7	-
Non-Financial Companies	-1.2	-1.0	-0.8	-
Non-Profit Institutions	1.9	1.9	1.9	-

Germany - Trade values (sa, y/y%)



Germany - Trade balance (9 Feb)	Oct-09	Nov-09	Dec-09	M'kt f'cast
Trade balance (nsa, €bns)	13.4	17.2	13.5	15.0
Exports (nsa, m/m%)	6.1	-1.0	-6.0	-
Exports (sa, m/m%)	1.9	1.1	3.0	-
Exports (sa, real, m/m%)	2.3	1.4	3.0	-
Imports (nsa, m/m%)	2.1	9.9	-16.8	-
Imports (sa, m/m%)	-2.9	-6.2	4.5	-
Imports (sa, real, m/m%)	-2.2	-4.9	4.5	-

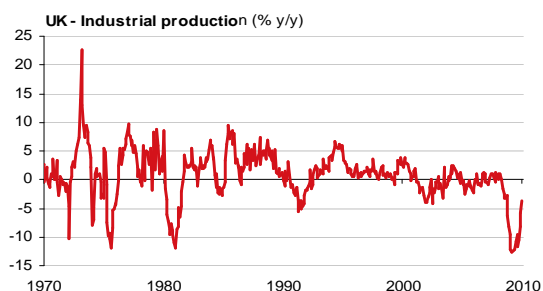
France - INSEE business sentiment (8 Feb)	Nov-09	Dec-09	Jan-10	M'kt f'cast
Business climate indicator (net balance, sa)	99.8	102.2	103.9	-

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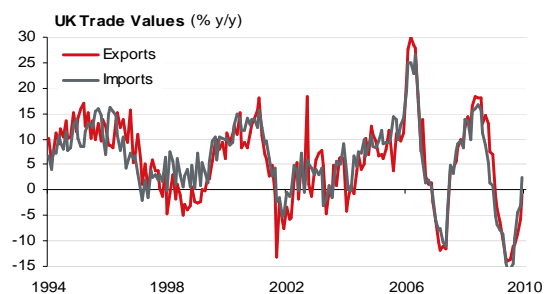
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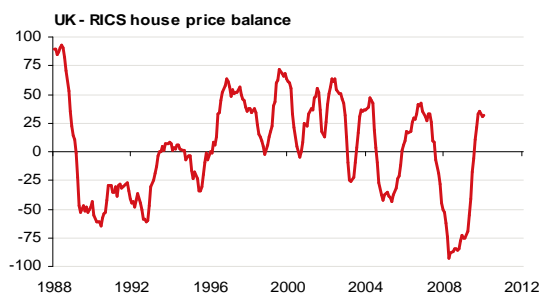
UK



UK - Industrial production (10 Feb)	Oct-09	Nov-09	Dec-09	Mkt f'cast
IP (% m/m)	0.0	0.3	0.5	0.2
IP (% 3m/3m)	-1.4	-0.2	0.4	-
IP (% y/y)	-8.2	-5.7	-3.6	-4.1
Broad Industry Groups (% m/m)				
Mining and Quarrying incl. Oil & Gas Extraction	0.8	5.2	-5.0	-
Electricity, Gas and Water Supply	-1.4	-3.6	4.2	-
Oil and Gas Extraction	1.4	6.5	-5.6	-
Manufacturing	0.0	0.2	0.9	-
Main Industrial Groupings (% m/m)				
Consumer Durables	-0.8	-1.7	1.9	-
Consumer Non-Durables	-1.1	-0.3	0.3	-
Capital Goods	2.0	0.9	0.8	-
Intermediate Goods & Energy	-0.4	0.9	0.2	-



UK - Trade balance (9 Feb)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Visible trade balance (sa, values, £bns)	-3.4	-2.9	-3.3	-2.8
Exports (sa, values, m/m%)	2.7	0.3	3.0	-
Exports (sa, values, y/y%)	-8.7	-5.8	-1.0	-
Imports (sa, values, m/m%)	3.0	-0.9	3.7	-
Imports (sa, values, y/y%)	-4.3	-3.0	2.4	-
Exports (sa, volumes, m/m%)	3.0	0.1	3.2	-
Imports (sa, volumes, m/m%)	3.0	-1.5	5.2	-

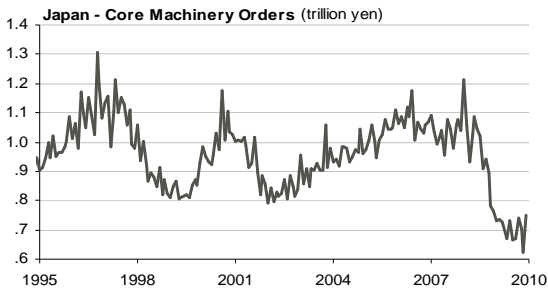


UK - RICS House prices (9 Feb)	Nov-09	Dec-09	Jan-10	Mkt f'cast
House price index (net balance)	35.1	30.0	31.6	-



UK - BRC Retail sales monitor (9 Feb)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Total retail sales values (sa, y/y%)	4.1	6.0	1.2	-
Same store sales (sa, y/y%)	1.8	4.2	-0.7	-

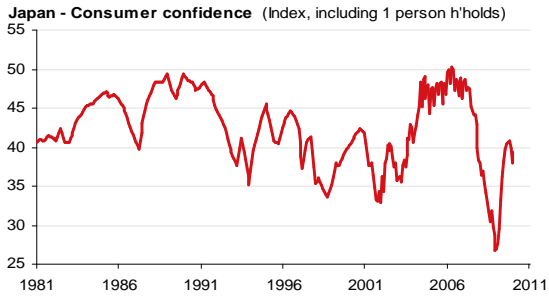
Japan



Japan - Core machinery orders (10 Feb)	Oct-09	Nov-09	Dec-09	M'kt f'cast
Machinery orders ex volatile items (sa, m/m%)	-4.5	-11.3	20.1	-
Machinery orders ex volatile items (sa, y/y%)	-21.1	-20.2	-1.5	-

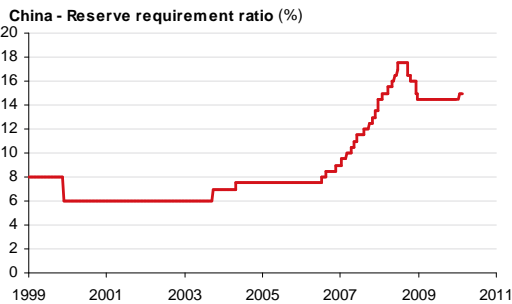


Japan - Corporate bankruptcies (8 Feb)	Nov-09	Dec-09	Jan-10	M'kt f'cast
Corporate bankruptcies (nsa, y/y%)	-11.4	-16.6	-21.8	-



Japan - Consumer confidence (12 Feb)	Nov-09	Dec-09	Jan-10	M'kt f'cast
Including one-person households	39.9	37.9	39.4	-
Excluding one-person households	39.5	37.6	39.0	38.0

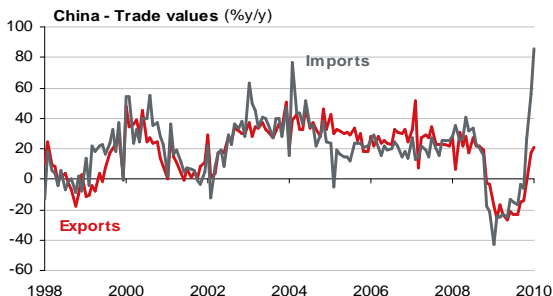
China



China - Reserve requirement ratio (12 Feb)	Dec-09	Jan-10	Feb-10	M'kt f'cast
Large commercial banks RRR (%)	15.5	16.0	16.5	-
Small commercial banks RRR (%)	13.5	14.0	14.5	-



China - M2 Money supply (11 Feb)	Nov-09	Dec-09	Jan-10	M'kt f'cast
M2 money supply (y/y%)	29.6	27.6	26.0	25.9



China - Trade balance (10 Feb)	Nov-09	Dec-09	Jan-10	M'kt f'cast
Trade balance (nsa, US\$bns)	19.0	18.4	14.2	20.0
Exports (nsa, m/m%)	2.6	15.1	-16.3	-
Exports (nsa, y/y%)	-1.2	17.7	21.0	-
Imports (nsa, m/m%)	9.0	18.7	-15.1	-
Imports (nsa, y/y%)	26.7	55.9	85.5	-



China - CPI (11 Feb)	Nov-09	Dec-09	Jan-10	M'kt f'cast
CPI (nsa, y/y%)	0.6	1.9	1.5	2.1

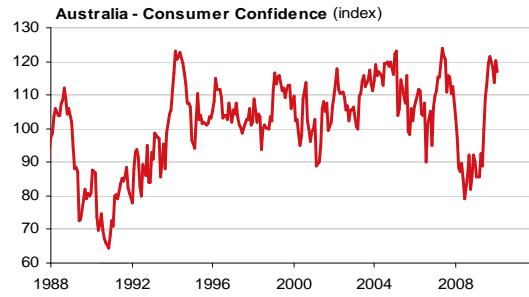
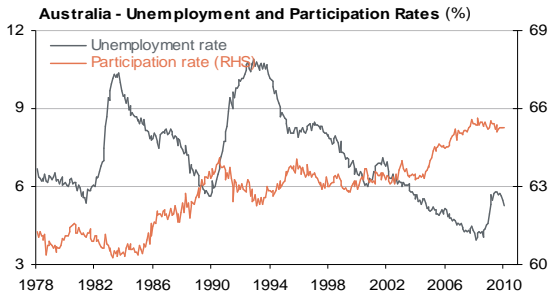
China - PPI (11 Feb)	Nov-09	Dec-09	Jan-10	M'kt f'cast
PPI (nsa, y/y%)	-2.1	1.7	4.3	3.5

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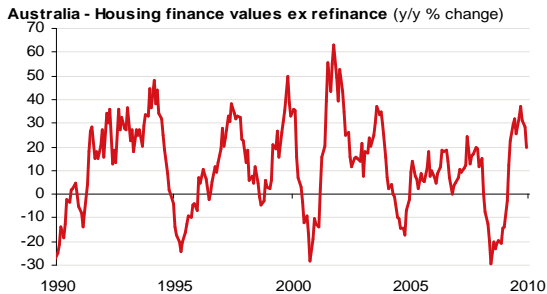
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Australia



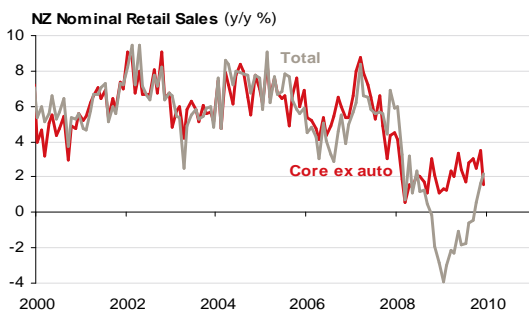
Australia - Labour force survey (11 Feb)	Nov-09	Dec-09	Jan-10	M'kt f'cast
Employment (sa, 000s, change)	33.1	37.5	52.7	15.0
Full-time employment (sa, 000s, change)	31.9	7.3	15.9	-
Part-time employment (sa, 000s, change)	1.2	30.2	36.8	-
Employment (sa, m/m%)	0.3	0.3	0.5	-
Employment (sa, y/y%)	0.7	1.1	1.7	-
Hours worked (sa, m/m%)	0.9	-0.2	-1.0	-
Hours worked (sa, y/y%)	-0.1	0.2	-1.2	-
Unemployment rate (sa, %)	5.6	5.5	5.3	5.6
Participation rate (sa, %)	65.2	65.3	65.3	65.2

Australia - Consumer confidence (10 Feb)	Dec-09	Jan-10	Feb-10	M'kt f'cast
Consumer confidence (sa, index)	113.8	120.1	117.0	-
Consumer confidence (sa, y/y%)	23.7	33.6	36.4	-
Consumer conditions (sa, index)	109.0	116.2	110.8	-
Next twelve months (sa, index)	118.9	127.0	126.0	-
Next five years (sa, index)	121.5	119.0	121.0	-



Australia - Housing finance (10 Feb)	Oct-09	Nov-09	Dec-09	M'kt f'cast
Owner occupied finance (ex-refinancing) (sa, m/m%)	-3.5	-4.6	-5.0	-5.5
Owner occupied finance (ex-refinancing) (sa, m/m%)	44.8	34.4	20.9	-
Construction of dwellings finance (sa, m/m%)	5.3	-2.2	-7.7	-
First-home buyers (nsa, % of loans financed)	26.0	22.1	21.0	-

New Zealand



New Zealand - Retail sales (11 Feb)	Oct-09	Nov-09	Dec-09	M'kt f'cast
Retail sales (volumes, sa, q/q%)	-	-	1.0	1.4
Retail sales (volumes, sa, y/y%)	-	-	-0.9	-
Retail sales (values, sa, m/m%)	0.1	0.8	0.0	0.6
Retail sales (values, sa, y/y%)	0.6	1.6	2.2	-
Retail sales ex-auto (values, sa, m/m%)	0.4	0.8	-1.8	0.3
Retail sales ex-auto (values, sa, y/y%)	2.5	3.5	1.6	-